



California

Dairy Review

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Committee Special Edition**

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California Quota Review Committee Completes Analysis of Pool Quota

At the request of the State Board of Food and Agriculture, Secretary Kawamura established an Advisory Committee to analyze the current situation of California milk pool quota and consider possible changes to quota for the future. The Committee was made up of 11 dairy producers from various regions of the State with a wide range in production volume and quota holdings. Producers also held varied affiliations with dairy cooperatives, dairy trade and other associations. The Committee was charged by the Secretary with exploring three quota options. The three areas of review were as follows:

Should the current pool quota system be:

1) continued with no adjustments; 2) modified; 3) retired?

The Committee undertook significant reviews of the three options by conducting six public meetings beginning May 23, 2007 and ending August 9, 2007. During these meetings the Committee used a systematic approach to identifying and discussing quota.

"The Committee's diligent effort in analyzing the three quota options and presenting a recommendation to Secretary Kawamura was an incredible achievement"

- Ann Silva

Committee Chair

Ann Silva, Tracy

Committee Members

Domenic Carinalli, Sebastopol

Ben Curti, Tulare

Frank Faria, Escalon

Frank Konyon, Jr., Escondido

Dennis Leonardi, Ferndale

Steve Maddox, Riverdale

Brad Scott, Moreno Valley

Richard Shehadey, Fresno

Pete Vander Poel, Tulare

Ray Veldhuis, Winton



California Department of Food and Agriculture
A.G. Kawamura, Secretary

The process required input from all members, including sharing of their own ideas, as well as comments and opinions they have heard from other producers. Comments from the public were allowed at each of the six meetings. Public comment and input on the creation and historical operation of the quota system was helpful to the Committee as they analyzed the three options.

To aid the Committee in studying the issues at hand, they undertook an in-depth review of the California milk pooling program- past and present. This included a review of why milk pooling was introduced, what amendments have been made to the program since its inception, and what is required to make changes to the current system. Part of the discussion was to identify what quota does, and does not do (i.e. quota does not increase or reduce total producer revenue, but rather it is merely a method to sharing existing California farmgate

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revenues). The California classified milk pricing system determines how much farmgate revenue is generated. A study of the milk pricing system was not included in the Secretary's charge to the Committee and therefore, was only an ancillary part of the Committee's review.

The process of reviewing pool quota fostered requests for additional data. Further analysis showed how pool prices (quota and overbase) were impacted by many factors. These included, among other things, class price formulas, commodity prices, pool payout methods (fixed \$1.70 spread versus the former variable price spread method), and regional quota adjusters.

Of particular interest to the Committee was a comparison of overbase prices using the \$1.70 differential to the variable payout method in place prior January 1, 1994. Since the 1994 introduction of the \$1.70 spread, an extra \$183 million has been paid to overbase milk than would have been under the variable price spread method. Further, if the class price formulas that are in use today would have been in place over this same time period, additional revenues above the \$183 million would have accrued to the overbase milk.

Another issue that generated considerable discussion among Committee members was the dollar amount and method currently used to finance the \$1.70 spread. Currently about \$11.5 million dollars per month is allocated to paying quota milk at a rate that is \$1.70 per hundredweight more than overbase milk. If all quota currently held by producers was bought out at May average market value of \$492 per pound of SNF, it would require a \$1.1 billion payment to producers. This does not include underwriting and legal fees. The monthly payment required to repay a loan of that amount would vary depending on the payback period and interest rate. Assuming a ten- year payoff at 5 percent the monthly payment would be approximately \$12 million. Concern was raised that overbase producers collectively may not be agreeable to reduce milk revenue by an additional \$500,000 per month to facilitate a quota retirement.

Regional Quota Adjusters (RQAs), which are reductions to the standard \$1.70 per hundredweight Quota milk can receive above Overbase milk, were reviewed by the Committee. The level of the RQA reductions vary by geographic area and range from \$0.00 per hundredweight

in Southern California to -\$0.27 per hundredweight for farms located in Fresno, Kings and Tulare counties. After taking the RQA reductions into account, Quota milk receives a higher net amount than overbase, ranging from \$1.70 more per hundredweight in Southern California to \$1.43 more per hundredweight in Fresno, Kings and Tulare counties. The committee considered various RQA options including one to equalize RQAs to the same level which would result in all Quota milk across the state receiving \$1.55 per hundredweight more than Overbase milk. A concern by some of the committee was the need to hold a referendum to make adjustments to RQAs. After discussing the pros and cons of each option the Committee decided to recommend no change to RQA levels.

Another scenario that the Committee discussed was the possibility that the next milk price downturn could cause a movement in the producer community to seek termination of the California pooling system. To terminate the pooling system would require a super-majority vote of California producers. At least 51 percent of producers would have to participate. Both 51 percent of producers voting by number AND 65 percent of milk volume (or 65 percent by number AND 51 percent by volume) would be needed for pool termination. After this discussion, the Committee concluded that a termination of the California pooling system (without a quota buyout) is unlikely in the next five years.

At the final meeting the Committee voted unanimous support for California producers to keep a pooling system. The Committee also voted unanimously against just modifying the current system. Then the Committee discussed whether to vote to retire quota or to leave quota unchanged. After reviewing the pros and cons between these two remaining choices, the Committee preferred the status quo option to leave quota unchanged. The Committee instructed CDFA staff to communicate a summary of the Committee's work to the state's dairy producers through the Department's monthly dairy newsletter. "The Committee's report will be a helpful record for a future review of pool quota. The Committee's diligent effort in analyzing the three quota options and presenting a recommendation to Secretary Kawamura was an incredible achievement" said Chair Ann Silva as the sixth meeting concluded.

Links to Quota Review Committee Documents on CDFA Website

1. Final Narrative Summary of All Committee Meetings (this Report) [http://www.cdfa.ca.gov/dairy/QRB Info/DairyReviewSpecialEdition.August2007.pdf](http://www.cdfa.ca.gov/dairy/QRB%20Info/DairyReviewSpecialEdition.August2007.pdf)
2. Committee's August 9, 2007 Report (long version) [http://www.cdfa.ca.gov/dairy/QRB Info/Morgan.08-09-07.pdf](http://www.cdfa.ca.gov/dairy/QRB%20Info/Morgan.08-09-07.pdf)
3. Committee's July 27, 2007 Report (long version) [http://www.cdfa.ca.gov/dairy/QRB Info/Morgan.07-27-07.pdf](http://www.cdfa.ca.gov/dairy/QRB%20Info/Morgan.07-27-07.pdf)
4. Notes from six Committee Meetings [http://www.cdfa.ca.gov/dairy/QRB Info/findings.html](http://www.cdfa.ca.gov/dairy/QRB%20Info/findings.html)
5. Instructions from Secretary Kawamura to the Committee [http://www.cdfa.ca.gov/dairy/QRB Info/BlueRibbonGuidelines.pdf](http://www.cdfa.ca.gov/dairy/QRB%20Info/BlueRibbonGuidelines.pdf)